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ABSTRACT

Research during the 1960's revealed that the benefits and burdens of public schooling were not equal. At the same time, the "taxpayers revolt" was taking place in school districts all across the country. Constitutional challenges struck down state systems of school finance in a half-dozen or so states. Fourteen states enacted substantial reforms in the 1972, 1973, and 1974 legislative sessions. The nature of these reforms, their effectiveness, and the role of state boards of education in further reform efforts, are explored in this pamphlet. (MLF)

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# THE IMPERATIVE OF LEADERSHIP

## II

## *A REPORT ON REFORMING SCHOOL FINANCE*

NASBE



EA 009 157

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# PREFACE

This report on *Reforming School Finance* represents the second in a series of twelve papers on issues impacting state boards of education. Publication of these materials is made available to all NASBE members by funds provided by the Elementary and Secondary Education Act of 1965 (Public Law 89-10, Title V, Section 505) provided through the State of New York.

This report on *Reforming School Finance* is organized into four sections. Section I contains an Overview Summary on *School Finance Reform*. Section II is the complete research text — *Reforming School Finance*. Section III presents Action Alternatives. Section IV is the Appendix containing an Annotated Bibliography.

This organizational format was chosen to meet the needs of several types of readers. The Overview Summary is intended for the reader who is concerned with the subject but for various reasons does not wish to be burdened with detail. Sections II through IV (containing research text, pragmatic alternatives and review sources) are provided for the technical reader who wishes an indepth study of the topic.

NASBE wishes to express appreciation to the Center for Research and Education (CRE) in Denver who coordinated the research efforts and to Dr. Joel S. Berke, director of the Education Policy Research Institute of the Educational Testing Service, who authored the research text on *Reforming School Finance*.

*Robert H. McBride*
*NASBE President*

# SECTION I
# OVERVIEW SUMMARY

Recent educational finance reform was prompted by a new breed of scholars who began during the late 60's to look at the wide variation in levels of student support within a single state. Higher education costs and court challenges have caused reform to become a significant issue for the 70's.

The problems raised by this searching look have been attacked by trying to determine more equitable means of raising revenues and then distributing them in a manner that provides greater equality of educational opportunity.

Two basic approaches have been used by states to deal with equity in revenue raising. One is equal yield for equal effort, which is an attempt at fiscal neutrality. By guaranteeing a fixed amount per pupil based on local tax effort, it eliminates the influence of local property wealth and assures every district the same chance. More effort, more money; less effort, less money. But the base is set. The second approach is equal statewide tax rates, whereby education is financed by a uniform statewide property tax or provided from general state revenues. Sometimes a combination of these two approaches has been tried.

Both systems have their problems and their disadvantages as far as real equality is concerned. But they represent a forward step.

Several approaches have also been tried for distributing revenues for equal educational opportunity. Perhaps the most common is equal per pupil revenues, with a fixed amount for each pupil in the state. This plan, however, does not account for differences in cost from one region to another or among different kinds of pupil needs. Other states have tried a system of distributing revenue based on weighting funds according to presumed need for educational resources on the part of different categories of students.

The Kansas and Florida reform laws illustrate how states combine and transform these basic approaches. Kansas uses a modified equal yield for equal effort revenue system, guaranteeing a "norm" budget regardless of the amount of local taxable resources. Distribution is carried out to adjust for differences in district need. The Florida system, however, leans heavily toward equal statewide tax with little district to district variation. The distribution system is a complicated combination accounting for grade level, curricula, and pupil-oriented weightings with an extensive schedule of special education values. A study of the 14 states with reform finance laws at the present time shows a substantial movement away from the local property tax base toward state revenues, with special provisions for reducing the effects of radical change at the local level. The outcomes of these reforms are still not clear, however, and there is some question as to whether states have the political capacity to maintain the reforms.

Although progress has been made, reform is far from complete. Still needed are solutions to the problems of property tax administration and pupil need weighting systems based on better justification. The issue of local autonomy and statewide standards must be clarified. The relationship between resources and pupil performance must be better understood. Finally, how much can reform principles be diluted to accommodate districts not benefiting from the reform laws?

State Boards of Education can play an important role in shaping the answers to those questions. As the representatives of all education interests in the state, they have the potential influence of disinterested spokespersons for a widely respected institution. To make that role effective, State Boards must involve themselves in the process of policy development and gain familiarity with the interests and individuals who participate in policy making. By utilizing its own and state department of education staff; by undertaking a program of "inservice training"; and by meeting with leaders and key staff of all agencies involved in the educational policy network, State Boards can be effective in achieving greater equity in state school finance.

# SECTION II
# SCHOOL FINANCE

*Dr. Joel S. Berke,*
*Director, Education Policy Research*
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For generations the topic of raising and distributing revenues for public schools was the bailiwick of a small group of specialists. Typically its membership consisted of the finance official in the state education department (a professor of educational administration who taught school finance at the state's teachers college or who consulted from a neighboring state), one or two high seniority legislators who had made the area their exclusive beat, and several experts from the key educational interest groups. The business of this exclusive fraternity was conducted in a virtually indecipherable language about seemingly incomprehensible issues. Not surprisingly, the subject received little public notice or interest.

In the late 1960's this situation began to change due to a variety of factors. For one thing, a new breed of scholars — frequently with training in specialties like economics, public finance, political science, public and business administration — began to examine the way schools were financed. Instead of studying the intricacies of the complicated aid formulas, with their delicate adjustments among tax effort, fiscal capacity, and educational need, the new students of school finance turned their attention to the *results* of these finance systems. Through the middle and late 1960's they began to announce a series of embarrassing findings; despite the so-called equalizing school finance systems that were the pride of the old line specialists, the burdens and the benefits of public schooling were anything but equal! Support per pupil ranged widely, with some districts spending two, three, and four times as much per pupil as others within a single state. Local tax rates also varied. But what was particularly disturbing was the fact that communities with high tax rates frequently achieved only average or even lower than average school spending levels, and the high spending districts often were able to do so with only moderate or low local tax effort.

Other defects in the system also surfaced. Despite the clustering of high proportions of disadvantaged and handicapped pupils in the large cities, where the general financial situation was undergoing marked deterioration and where cost of living was the highest in the state, state aid systems were still geared to the 1920's when cities were rich and their environs poor.

While these and other insights were emerging, a phenomenon widely known as the "taxpayers' revolt" was taking place in school districts all across the country. The rise in aggregate educational spending had outrun most other sectors of the economy, and a classic cost-revenue squeeze was forcing tax rates up at an alarming rate. State after state set record levels for school budget and bond issue defeats.

To the kindling provided by the new research and to the fuel of public dissatisfaction with rising educational costs, a match was lit: the constitutional challenge to inequitable school finance systems. Utilizing the fourteenth amendment of the federal constitution, between the summer of 1972 and the spring of 1973 activist attorneys in a half dozen or so states won decisions striking down state systems of school finance. Raising and distributing revenues through approaches that made the level of educational spending within a state vary with the size of the local tax base was declared unconstitutional in those cases, and that situation to one degree or other was reasonably descriptive of the situation in virtually every other state except Hawaii, which has a statewide revenue raising system.

As a result, both in states which were under court order to reform and in many other states which sought to revise their systems without (or before) legal compulsion, a wave of new policy development in school finance systems rolled across the country. Despite the March 1973 reversal by the

U.S. Supreme Court of the fourteenth amendment challenge (state grounds continued to provide a legal means for overturning school finance laws) perhaps a dozen states enacted substantial reform in the 1972, 1973, and 1974 legislative sessions. Virtually all serious observers of the political process which underlay these new laws agree on one point: leadership was provided by legislators, governors, and their staffs; state education departments and state boards of education typically played a secondary role at best.

What were the nature of these reforms? How effective are they? And can state boards of education have a more substantial part in the future? The balance of this article will address these questions.

## THE SUBSTANCE OF SCHOOL FINANCE REFORM

In setting about the process of righting the wrongs of traditional methods of raising and distributing revenues for public education, policy makers have had to address two distinct questions: How can educational revenues be raised in a more equitable manner? How can educational resources be distributed in a manner that provides greater equality of educational opportunity? While most court decisions addressed primarily the former question, some focused on the latter. In any event, all states have had to deal with both sides of the ledger.

*Raising Revenues More Equitably*

One of the results of the recent legal decisions is the idea that all state and local education revenues must be taken together in evaluating a system of school finance. It is no longer possible for a state to claim an equitable school finance system if it gives equal state aid per pupil but has substantial variations in the amounts that localities can raise with a given level of tax effort. As we shall see, the state-local revenue raising system is viewed as a whole, since the *state* is responsible for the provisions of educational support. While a state may delegate certain responsibilities in local school districts, the state cannot avoid overall responsibility. In fulfilling that responsibility, two competing concepts of equity characterize recent reform legislation: equal yield for equal effort and uniform tax rates throughout the state.

*Equal Yield for Equal Effort*

This is a traditional, if imperfectly realized, approach to equity in school finance. It draws upon the local property tax but utilizes state aid to overcome the disparities from community to community in the size of the local tax base. The technical approaches for implementing this standard have different names — Percentage equalizing, capacity equalizing, power equalizing — but the goal is the same: to assure that communities selecting a given tax rate will receive the same level of educational revenues.

Underlying this approach is a belief in the value of local decision making on tax rates and the idea that a community that wants to make a higher effort for education should be able to reap higher educational spending levels for its schools. According to its advocates, this approach is "fiscally neutral"; that is, it eliminates the influence of local property wealth by assuring every district the same chance. For a one percent (or 10 mill) tax effort, any district, whether rich in property wealth or poor, is guaranteed $1000 per pupil (in an illustrative formula). A higher effort will bring it more, a lower effort will realize less.

However, whether the fiscal neutrality of capacity equalizing laws is real or illusory is open to debate. By leaving the level of educational support to localities, the system permits substantial variations from district to district in spending levels. The reason for these differences may, in fact, be something other than a free choice determination of how high a value the district places on education. Differences in taxing levels may well be primarily the result of differences in community income levels (which are not necessarily

consistent with property valuation levels), of the age composition of the community, or of differing proportions of commercial and residential property in the tax base. It is easier, many would argue, for districts comprised of richer and younger voters and districts with higher proportions of commercial and industrial property to vote high property tax rates than it is for poorer, older and predominantly residential communities. Furthermore, without effective tax assessment provisions to insure comparable valuation levels within and among districts, the equalizing finance system may rest on the most unequal of property valuations.

Even if equal yield for equal effort formulas were considered fiscally neutral, other critics contend that the fact that different communities may choose different spending levels results in a denial of distributed equity, since a child born into a low spending community is denied the educational opportunity that his or her age mate born into a high spending community receives.

Despite its critics, however, capacity equalization is a popular approach that has been adopted in one form or other in a number of the new finance laws.

*Equal Statewide Tax Rates*

An alternative approach to equalization is to provide equal statewide rates for education on the theory that, as a state service, education should be paid for equally by all taxpayers. This approach is, for all practical purposes, identical with full state assumption, although technical gimmickry may be utilized to give the impression that a portion of the tax is a "local tax of uniform statewide rate."

This general approach may be financed by the property tax administered as a statewide levy or simply from the general revenues of the state. The latter approach has generally been preferred by state assumption proponents. However, the degree of tax equity in sales and income taxes, in comparison with utilizing a local or statewide property tax, appears in current public finance thinking to require some fairly intricate calculations based on some rather debatable analyses. The traditional assumption of the regressivity of property taxes vis-a-vis statewide revenue sources has been seriously challenged in recent years by studies which show that when only residential property is considered, housing values and incomes are highly correlated except for some clearly identifiable groups like retirees or others with fixed incomes.

Other reasons for state assumption, however, must also be considered. The greater elasticity of sales and income taxes had been cited as advantages over the property tax. However, in the recent period of economic decline the comparative resistance of the property tax to downward fluctuations of the economy has come to be seen as an asset by educators, and thus argues against a shift to sales and income tax revenues for education.

Although completely equal statewide tax rates have not been widely adopted, movement in that direction and that of greater state assumption has occurred; and with them, of course, an increasing shift to statewide revenue sources.

One problem raised by statewide rates, however, has particular effects on large, older northeastern and midwestern cities which have higher total tax rates (because of their greater need for municipal services) but relatively lower tax rates for schools. Whether it is a "reform" to increase the tax pressures on the older urban areas to equal statewide average school rates illustrates the problems that arise from viewing educational finance outside the context of public finance generally.

Clearly, these two approaches do not exhaust potential approaches to fairness in educational revenue raising. And state legislatures have been quick to combine these apparently polar concepts by requiring a relatively high equal rate levy of all districts and a partially or fully capacity equalized optional "leeway" or "add-on." But for purposes of raising central issues, these two general approaches are appropriate.

*Distributing Revenues to Enhance Equal Educational Opportunity*

Just as there are different answers to what constitutes equity in taxation for education, there are equally distinct value decisions that must be made in developing a mechanism for distributing educational revenues. In this area, answers seem far more tentative and experimental, and the research background related to distribution schemes is far less substantial than it is in regard to tax systems.

Educational researchers have been slower to connect their studies of learning and pedagogical theory and techniques to the public policies necessary to implement their findings. As a result, the approaches described below have been adopted with an equal measure of hope and doubt. The next few years should be a time of constructive evaluation of the impact of the new systems of educational revenue distribution.

*Equal per Pupil Revenues*

Perhaps the most common approach to providing basic equality of educational opportunity is to develop a school finance system that assures virtually equal revenues per pupil to each school or district in the state. This view is, of course, inconsistent with equal yield tax systems which permit spending levels to vary among communities based on local tax effort. Proponents of equal per pupil distributions maintain that this approach meets the state's responsibility for providing an equitable public education system for the entire state, eliminates the disparities among districts that characterize other systems, does not rest on value judgments about which students should receive more than others, or upon unsubstantiated assumptions about how much it costs to educate any particular type of pupil. Treating everyone alike, this approach implicitly declares, is the essence of equal opportunity.

But do equal dollars mean equal education? Clearly there are some serious problems with this view. Critics note that educational costs vary among the regions of a state, and that $1000 per pupil in one part of a state can purchase a different quality of everything from chalk to teachers than it can in other areas. Equal *resources* rather than revenues might be a better interpretation of this equity standard, but it is a difficult one to implement.

*Revenues Related to Needs*

A more substantial challenge to the equal dollar principle of equity is mounted by those who argue that unequal revenues are necessary to compensate for differing pupil characteristics and curriculum costs. To implement this approach, a number of states have recently adopted systems which distribute revenues based on weighting funds according to the presumed need for educational resources on the part of different categories of pupils. Such weightings are designed to establish a better match between pupil needs and educational resources.

But weighting for what? Grade level is one approach, intended to adjust fund distributions by weighting pupils more heavily in grades in which costs tend to be higher. However, if a state were convinced that early interventions were most effective, it could (as Florida has done) reverse the ordinary funding pattern by weighting pupils in kindergarten through grade three 1.2 times middle-grade elementary pupils, thus aiming for added resources at the early grades.

Curriculum weighting provides a related approach. Pupils in vocational programs may be counted 2.0 times regular curriculum pupils because of equipment and personnel costs, and weightings for pupils in special education categories may run to ten times normal pupil costs and weightings set accordingly. (As an example, Table 1 describes the Florida weighting system.)

TABLE 1

## FLORIDA PUPIL WEIGHTINGS AND COST OF LIVING FACTORS

| *Student Cost Factors* | | | |
|---|---|---|---|
| Kindergarten | 1.20 | Socially Maladjusted | 2.30 |
| Grades 1, 2, 3 | 1.20 | Special Learning Disabilities I | 7.50 |
| Grades 4 to 10 | 1.00 | Special Learning Disabilities | 2.30 |
| Grades 11, 12 | 1.10 | Gifted I | 3.00 |
| Educable Mentally Retarded | 2.30 | Hospitalized and Homebound I | 15.00 |
| Trainable Mentally Retarded | 3.00 | Vocational Education I | 4.26 |
| Physically Handicapped | 3.50 | Vocational Education II | 2.64 |
| Physical and Occupational Therapy I | 6.00 | Vocational Education III | 2.18 |
| Speech Therapy I | 10.00 | Vocational Education IV | 1.69 |
| Deaf | 4.00 | Vocational Education V | 1.40 |
| Visually Handicapped I | 10.00 | Vocational Education VI | 1.17 |
| Visually Handicapped | 3.50 | Adult Basic and High School | 1.60 |
| Emotionally Disturbed | 3.70 | Community Service | 1.30 |

| *Cost of living Factors, by County* | |
|---|---|
| 110.33 | Dade |
| 107.19 | Broward, Palm Beach |
| 100.12 | Alachua, Collier, Duval, Leon, Monroe, Orange, Pinellas, Sarasota |
| 96.05 | Bay, Brevard, Clay, Escambia, Hillsborough, Okaloosa, Polk, St. Johns, Santa Rosa, Seminole, Volusia |
| 90.99 | All others |

Weightings that identify the pupil more than the treatment are another approach. Test scores have been utilized in California, New York, and Michigan to identify concentrations of pupils in need of compensatory funding; and the proposals of Congressman Quie to distribute ESEA I funds in that manner are well known. A less direct measure of disadvantage, but one aimed at identifying a very similar group of students, is the weighting of all pupils from families receiving payments under Aid to Families with Dependent Children (AFDC).

With AFDC, test scores, and categories of the handicapped, a serious byproduct of weighting becomes obvious: the problem of labeling. Whether we do a favor to a youngster by identifying him as "disadvantaged" regardless of the additional funds that may be spent on his schooling is questioned by many. Teacher expectations of a pupil's performance may be unconsciously prejudiced by the label, so that what was intended as a boon of added resources may, in fact, be a doom of continued failure.

Another approach has been proposed. This system would build budgets by diagnosing the needs of individual pupils and determining the dollar cost necessary to meet his needs. A sum of individual needs and costs would be computed for the classroom and the school; an aggregate for schools in the district; and, ultimately, an aggregate for state revenue requirements for elementary and secondary school support. While the mechanics of such a system rest on ability to identify individual pupil resource needs, and raises questions both for the size and quality of the educational bureaucracy, its consistency with concepts of individualization in instruction make it an approach which cannot be ignored in the future.

But weightings, with all their technical problems and policy objections, are intended to serve a very real need which all school finance systems must address, matching resources to needs. One problem with some of the initial enthusiasm over contemporary advances in school finance reform was that by addressing revenue raising alone, costs associated with concentrations of "high cost" students were ignored. Such high cost students are not randomly distributed. Thus corrections of disparities in property tax base distributions may entirely miss, and perhaps even work against, providing added revenues to meet educational objectives. Meeting those objectives, however, may be accomplished through weightings or through the more traditional approach of the categorical program. Among the advantages of the categorical mechanism is that it may provide better state control and monitoring of its use. On the other hand, horror stories of the rigidities and red tape associated with such programs are legion.

## FROM THEORY TO PRACTICE: THE IMPLEMENTATION OF SCHOOL FINANCE REFORMS

In practice, the dozen or so states which have adopted reasonably substantial school finance reform have combined and transformed the various elements discussed above. Yet, the basic principles are recognizable. For example, the Kansas law is essentially a modified equal yield for equal effort formula with some cost adjustments on the distributional side.

As adopted in 1973, a Kansas school district making a 1.5% tax effort was guaranteed the norm budget, approximately $935 per pupil in the basic category, regardless of the amount of local taxable resources. If the district wished to make a higher tax effort, it would be guaranteed proportionately more per pupil. Since the norm budget was set at an amount lower than some of the wealthier districts would be able to raise at the prescribed tax levels, it was not perfectly equalizing; that is, some districts can still realize more revenue than others with the same tax rate. However, the basic thrust of the formula is clearly recognizable, and it constituted a substantial improvement over previous Kansas law in adjusting for the differences in local tax base.

On the distribution side, the Kansas formula had a very rough attempt at adjusting for district needs. The amount for the largest school districts (those with over 1300 pupils) was $207 less per pupil than the smallest size category. The justification for this provision was that diseconomies of a small scale operation required such districts to get proportionately more funding to deliver the same service than a larger district could provide.

The Florida law exemplifies a substantially different approach. On the revenue raising side, the degree of a district choice in tax rates is substantially less than in the Kansas approach. If anything, while the Florida law does permit some range for local leeway, it approaches the equal statewide tax rate approach. The basic plan is to provide a required levy of approximately six mills per thousand dollars of property valuation, with a leeway of a bit over two additional mills to reach the mandated tax ceiling of eight mills in each district. In return for levying the basic millage requirement, each school district is guaranteed a state-specified amount per weighted pupil.

The Florida weighting system is the most distinctive feature of its formula. It provides grade level, curricula, and pupil-oriented weightings, with an extensive schedule of special education values. In addition, in order to recognize regional cost variations, the final per pupil funding amounts are again adjusted by a cost-of-living index for the school district. In those districts with low prevailing cost of living, amounts per pupil are decreased slightly; in those districts where it costs more to purchase supplies and hire teachers, the amounts are adjusted upward proportionately. (See Table 1).

There is little need to trace through the detail of more state formulas. The important thing is to see through the technical provisions to understand the basic purposes the laws seek to achieve. Different states will have

different goals; but whatever those goals may be, the new school finance has techniques that can implement them.

*How Far Have We Come?*

How widespread and effective have the new state school finance systems been? One recent report prepared by the Legislators Education Action Project of the National Conference of State Legislatures identifies 14 states whose new school formulas are judged to incorporate significant elements of reform. Because these laws have been in operation for only a year or two in most instances, they are, therefore, still in their phase-in stage, careful objective evaluations of their operation have not been made. However, some initial judgments are possible.

As Table 2 which identifies the 14 reform states shows, one significant feature of the new laws is that they have increased the state share of school funding significantly. Such an increase is in itself no guarantee of greater equity; but given the operational effects of the local property tax in most states, shifting away from that revenue source probably is a substantial element of progress. The increase from 43% to 51% in the proportion of state funding in a single year in these states constitutes a spectacular change. By shifting increasingly to state revenues, these states appear to have reduced the range in both local tax rates and in expenditures.

TABLE 2

## STATE PROPORTION OF TOTAL STATE-LOCAL SCHOOL FUNDING PRE AND POST REFORM PERIODS SCHOOL FINANCE REFORM STATES

| STATE | DATE OF REFORM | STATE SHARE OF TOTAL STATE-LOCAL EXPENDITURES IN | |
|---|---|---|---|
| | | LAST YEAR BEFORE REFORM | FIRST YEAR AFTER REFORM |
| Arizona | 1974 | 42.0 | 54.6 |
| California | 1972 | 36.7 | 45.3 |
| Colorado | 1973 | 28.9 | 39.9 |
| Florida | 1973 | 61.3 | 62.5 |
| Illinois | 1973 | 39.3 | 44.3 |
| Kansas | 1973 | 29.8 | 47.7 |
| Maine * | 1973 | 38.6 | 38.5 |
| Michigan | 1973 | 49.4 | 52.9 |
| Minnesota | 1971 | 50.7 | 60.9 |
| Montana | 1973 | 27.5 | 43.8 |
| New Mexico | 1974 | 74.5 | 77.8 |
| North Dakota | 1973 | 32.2 | 46.1 |
| Utah | 1973 | 58.4 | 61.9 |
| Wisconsin | 1973 | 31.8 | 39.0 |
| 14 State Average | | 42.9 | 51.0 |

Source: National Education Association Research Division, *Estimates of School Statistics, 1972-73, 1973-74, 1974-75* (Washington, NEA)

* Reflects an $83,000,000 reported State appropriation rather than $100,000,000 as reported by State Commissioner of Education.

Virtually every state that passed a new law had to make accommodations and reach compromises that would allow its adoption. In many cases, those concessions included "saving harmless" or "grandfathering" districts with low tax rates or high expenditure levels. In other words, it was necessary to avoid sharp tax increases or reductions in expenditure levels for districts that were benefiting from the previous system; and as a result, special provisions were adopted that eased the transition period. Thus, at the present time, the data does not reflect the operation of the new laws in the fairest terms.

Or do they? One of the unanswered questions facing those interested in evaluating school finance systems is whether states will have the political capacity to maintain reforms over a period of years. The initial shift to more equalizing formulas came as noted above, with an assist from legal challenges and at a time of reform in one state after another. As the legal challenges abate, and as the spotlight shifts to other social problems, will the districts which have benefited from existing programs be able to retain or regain their old advantages? The answer will probably vary from one state to another, but in every state reform hangs in the balance.

Thus, while substantial steps have been taken to end the problems in the raising and the distribution of educational revenues, the outcome is by no means clear or certain.

*A Long Way Yet To Go*

One thing that *is* certain is that the new reforms are far from complete. The agenda of needed change is becoming increasingly clear as time goes on. If the local property tax is to continue to provide revenues for public education — and that is clearly the prospect — the well known problems of property tax administration must be tackled. Assessments must be made more professional; equalization ratios among districts must be more realistic; and provisions to permit relief from the bite of the tax for property owners with low income should be adopted.

Secondly, weighting systems and categorical programs must be made to rest on better justifications. That weighting systems were adopted on the basis of some fairly questionable data was a necessity if the principle was to be put into practice at all. But continuing to base those systems on inaccurate and inadequate data is not acceptable. States must analyze the components of cost levels and seek systematic ways of setting desired spending levels for different categories of pupils, classifications of curricula, and types of school districts.

State-local relationships must be clarified. While the research literature does not substantiate the widely held notion that increased state funding will inevitably lead to increased state control, a number of factors seem to be combining to enhance state concern and responsibility in education. In many ways, the same forces which brought about the school finance reform laws are also bringing greater state supervision of local education. The political characteristic of school finance reform already noted, i.e., that it was general government officials who took the lead rather than education specialists, connotes a greater interest on the part of legislators and governors with the inner workings of education. Increasingly, state legislative education committees are beginning to ask searching questions about the relationship between educational resources and educational performance. What seems appropriate is greater clarification and specification of the roles and responsibilities of different levels of government.

In at least one state, New Jersey, redefinition of state and local responsibilities in education is explicitly linked by court order to required reform in school finance. There, the state Supreme Court has interpreted the New Jersey constitution to require that the legislature replace the existing law (which the court characterized as "a patchy product reflecting provincial contests") with a school finance plan that will assure to every child in New

Jersey an education that will equip him or her "for his role as a citizen and as a competitor in the labor market." The implications for state-local relationships are loud and clear. The court declared that if instruction in any district of the state "falls short of the constitutional command...the obligation is the state's to rectify it. If local government fails, the state government must compel it to act; and if the local government cannot carry the burden, the state must itself meet its obligation."

At this writing, New Jersey appears to be far from resolving its financing problems (primarily because of the absence of a statewide income tax). However, the State Board of Education has moved forward in the development of a governance code to specify the complicated responsibilities and relationships of local districts and the state in the development, implementation, and monitoring of a system of "thorough and efficient education" to meet the court's requirement. While controversy between those who have strong attachments to local autonomy and those who favor statewide standards has postponed adoption of an acceptable final version, the process has placed the State Board in the center of the action.

A final problem still unresolved in regard to the new finance reform laws is the question of how far reform principles will be diluted to satisfy the interests of districts which are not the beneficiaries of the new law, e.g., high property valuation districts, low tax effort districts, districts without high proportions of pupils for whom higher weightings are provided. Clearly the essence of democratic government is accommodation, and no law can pass a state legislature in pure form.

Yet redistribution is implicit in school finance reform. While the blow can be softened if the total amount of funds to be distributed can be increased, and thus virtually everybody can gain or at least not lose, relative positions must shift — and school systems tend to be sensitive to their relative position in the spending hierarchy. Thus, that most difficult of questions — how far can principle be compromised before forward progress is lost — will be the key to whether meaningful improvements in the equity of school support and in the provision of equality of opportunity will take place.

## THE ROLE OF STATE BOARDS OF EDUCATION

Given the background and problems still to be resolved, is there a role for State Boards of Education in reforming the ways in which revenues are raised and distributed for public education? For this author, the answer is yes — but with two important qualifications. First, State Board members must understand the issues and follow the analyses that comprise *policy development*. Second, they must be willing to function as effective participants in the *policy making* process.

### *Understanding Policy Development*

There appear to be roughly six phases or aspects to the development of new school finance policy. First, there is the analysis of the problems that affect school funding in any particular state. What is the pattern of expenditures per pupil among the school districts of the state? Is there a wide range, or are most districts grouped tightly around the average? What is the relationship between school spending and local tax rates? Is the pattern one in which the districts which are spending high appear to be making a strong tax effort, or are they simply reaping the benefits of having high property tax roles at low tax rates? What are the characteristics of the pupils that are associated with varying spending levels? State Boards are entitled to ask questions of these kinds and receive data organized in ways that answer those quesitons. The answers will probably require the preparation of different types of reports than the State Department of Education has prepared in the past, but without data organized under headings and in formats that permit basic policy questions like those above to be answered, policy makers are shooting blind.

Second, Board members must determine what the impact of existing school finance law is on problems revealed by such questions. How do current state aid programs distribute revenues? Do they compensate for differences in local tax base? Do they target on areas of high socio-economic or educational need? Are they responsive to the problems of urban areas (if that is a characteristic problem of the state) or of poor rural regions (if that is the problem)? Is the structure of state aid such that it is keeping up with the growth of school spending, or is the local property tax being forced to bear the burden of increasing school costs? And how do state school formulas react to the problem of declining enrollments? Do districts lose state aid on a one-for-one basis with decline in pupil population, when in fact their costs may drop more slowly, if at all? All these and many others are the kinds of questions that are central to the development of school finance reform policy.

Third, Board members must begin to acquire and assimilate information that will permit them to keep abreast of such information on a regular basis. Much of that information undoubtedly already comes in to the State Department of Education, although it may not be utilized and published in ways that answer the kinds of questions just noted. Other information may be available in the State Department of Taxation, or Audit and Control, in Public Welfare, or in other governmental agencies. Still other information may be gathered and collated by the professional associations of teachers, administrators, and school boards. While it is important to take note of who supplied the data, all those mentioned are valuable sources of information on problems and policies. Clearly, Board members functioning part-time and not as experts in all of these fields will need assistance in assembling and utilizing this information, and we will turn to the question of staffing for the Board later.

Fourth, on the basis of the analyses described above, policy development requires the construction of a set of alternative potential school finance measures. Such measures will embody and combine the approaches discussed above: (1) capacity equalization to emphasize local choice or full state assumption to assure statewide equality of tax treatment, and (2) distribution systems based on equality for all school children or those that try to match resources to needs. Some Boards may have a preponderance of members whose views on these questions are fairly well articulated and certain. But is more likely that the choices to be made among the competing types of finance laws will be affected by the way in which fund distributions under alternative approaches meet the problems that have been elicited through the first three activities already described.

In some states, for example, high proportion of poor pupils are clustered in districts with high property valuation. In such instances, a school finance law that equalizes for property values would not solve the problem of providing greater educational resources to compensate for societal or educational disadvantage. On the other hand, if the analysis of the data showed that low incomes and low property values tended to cluster in the same communities, the choice of a school finance formula would be considerably easier. Thus while value questions are not going to be eliminated by data, they can be informed, eased, and made more effective.

Fifth, the development of alternative proposals and the analysis of which districts and pupils gain and which lose under the proposed alternative is only one aspect of assessing the effects of alternative approaches. State Boards should be able to receive judgment on the likely administrative and political impacts of potential laws as well. In some cases, Board members themselves may have enough experience to make some judgments in this area. In others, they may need to receive advice from the state education departments' legislative officials liaison. And it would be entirely appropriate to consult with the representatives of various interested professional associations about the positions their organizations would take on the measures. In any event, the point is to recognize that administrative and political impacts are appropriate topics for Boards to consider.

The last aspect of policy development that should be understood is that policy development is a continuing process. No school finance law written can be effective unless it is constantly monitored and reassessed. Despite all the analytic paraphernalia discussed above, the best that those who develop policy can do is to make informed guesses about the likely effects of their products in operation. Of course, it is better to have informed guesses than blind guesses; but it is far more important to provide a continuing mechanism for evaluating laws in operation. In fact, this necessity brings us back to the beginning of this section: the analysis of school finance problems. State Boards of Education should receive periodic summaries comparing trends in school finance that will permit a comparison of the situation before and after passage of the law.

*Participating in the Policy Making Process*

Unfortunately, even if a State Board of Education does its homework in the policy development process, there is no guarantee that it will be an effective participant in policy making. Russell Meyers, in his thoughtful comparison essay on governance, had made clear the complexity of the factors which contribute to or undercut the political power of the State Board. And he notes as well than an alternative posture to an active participation in policy making is the more remote role of statesmanship or professional leadership. However, if Boards are to be taken seriously in the area of school finance, an area in which general government officials feel thoroughly capable of operating, they must learn to function effectively as full members of the policy making network.

That network, as Mr. Meyers makes clear, involves the legislature, the governor, and the state education department, as well as the state board of education. And in each of these instances, the Board would do well to begin to think of these agencies both as interests and as individuals. By thinking of them as *interests*, the Board acknowledges that the governor has a set of concerns that are particular to his office, his constituency, and the whole range of policy objectives that he is trying to advance. Similarly, the key members of the legislature who are important to educational policy making have constituencies different from the governor's; their legislative priorities may not be the same as his; and their political needs within the legislature are unique. The Chief State School Officer brings still a different set of interests and a different constituency into the network. And because the fortunes of the Board are so intimately tied to that of the Chief State School Officer, a peculiar relationship must be nurtured. Competition between the two will effectively cancel the impact of either a spokesman for education. Furthermore, without the resources and the cooperation of the state education department to draw upon, the process of policy development described earlier is impossible for the Board.

In addition to these primary participants in the educational policy making process, there are others without an official part whose participation is frequently noticeable. Representatives of professional associations and such organizations as taxpayer groups, labor unions, chambers of commerce, municipal officers associations, and League of Women Voters have all been noted in one state or another as playing some part in school finance change.

But understanding where these people come from is not enough. They must also be seen as *individuals*, people with personalities, styles, attitudes, and ideas of their own. It may well be that the governor's education aide or planning director is the important person in determining the governor's position on school funding policy. It is likely that one or two key legislative aides will do much of the spade work in determining the shape of the legislative proposal that is given serious consideration by the legislators. One or two bright and able school officials may be the ones who can unlock the information the Board seeks, or who can draw upon his or her experience and insight to help the Board understand the meaning of events and people on the educational scene.

Even though the Board is a part-time body, it should develop both formal and informal relationships with others who participate in policy making in educational finance. If the Board is to be effective, it must understand and seek to accommodate the interests and needs of many of these groups and individuals. It will have to seek grounds of mutual interest whenever possible for its views and positions with those of the other policy developers, and it should seek ways of conciliating the opposition. Since it is unlikely that everyone can be won over, the Board, like any other political participant, must satisfy itself with seeking out coalitions that are sufficiently strong to achieve a majority of the needed legislative votes.

In different times and places that coalition can include virtually all interests; at other times that is not possible without surrendering priority goals. But coalition development is the heart of the policy process. Thus when the Board considers alternative school finance formulas, it must think not only of fiscal and educational advantages and disadvantages, but it also must be able to ask and answer the old political question: Who will this proposal make glad, and how glad? Who will it make mad, and how mad? Only by knowing the interests and needs of all the policy factors can it make that judgment.

The role described here for State Boards of Education as participants in the policy making process is an ambitious one indeed. It probably exceeds the past performance of most Boards, certainly in the area of school finance. However, a role of that type should be possible if State Boards are willing and able to overcome their disadvantages and maximize their strong points.

One of the most serious problems confronting State Boards of Education in comparison with other participants in policy making is that they are part-time amateurs with little staff assistance of their own. However, by focusing on certain key subjects — and finance should be one of them — an adequate degree of expertise can be developed. Three suggestions seem in order.

First, it would be helpful for a State Board to have a small staff, at least one full-time professional staff member, of its own. The staff function would be to act as a liaison with the Chief State School Officer and the State Department of Education, and to assist in organizing contacts with other participants in policy making. It is important that such a staff not see itself as a competitor to the Chief State School Officer; but a Board needs help in formulating, requesting, and following up answers to its questions.

Second, the Board should develop a program of "in-service training" for itself in selected areas, school finance among them. The legislative committees and study commissions which have drafted new finance laws have found that it is possible to assemble appropriate reading as briefings, and to bring in periodic consultants, to help the members develop the background to cope with the issue. Staff can help organize this kind of activity.

Third, State Boards of Education must show that they are interested in being responsible participants in policy making. They must hold meetings, both formal and informal, with leaders, officials, and staff in all other parts of the policy making network. And they must, as noted above, learn to know these people as individuals as well as interests. This may mean some activities as ordinary as having lunch and dinner with legislators and legislative staff, aides to the governor, and officials of departments that have interest and relevance to education. It also means some informal meetings to explore particular issues of interest. What is critical is that leaders and officials in all parts of the policy network of education get to know that the State Board of Education takes its job seriously, that it understands the issues, and that it has access to and command of useful information and analyses.

In its effort to serve a constructive function in reforming school finance, State Boards have certain inherent advantages which should be maximized. The Board symbolizes citizen concern with education, and education continues to rank near the top in public opinion polls for respect for institutions. State Boards should seek to represent the full range of educational in-

terests: professional, parent, student, local education agency, rural, urban, minority, and, of course, the state department of education.

To the extent that the Board is seen to be widely familiar with the range of interests and concerns in education in the state, it will be turned to for judgment and advice and its positions will be taken seriously. However, if the Board is seen as speaking for only a narrow slice of education, is not thought to be in touch with the varied opinions and views throughout education, and does not appear to maintain contact with substantial elements interested in public education, it will be dismissed by the legislature and the governor as another source of special pleading.

# SECTION III
# ACTION ALTERNATIVES

### *NASBE Staff Recommendations to State Boards*

The Education Amendments of 1974 (Title VIII, Section 842) provides that states may be *reimbursed* for the development or administration of state finance plans which meet the test of the fourteenth amendment and which seek to equalize educational opportunity. States are to submit grant proposals to the U.S. Commissioner of Education by July 1, 1977. Grant awards will range from $100,000 to $1,000,000 per state. While Congress has not yet appropriated funds for this purpose there is some hope that they will. The State Board should immediately inquire what plans are currently being developed by the department of education, the legislature and the governor as to application for such a grant. If no plans are currently underway, the State Board should immediately convene a meeting of representatives from each of those groups to begin developing a joint plan. If one or all of those groups have plans underway, the State Board should ask for briefings and involvement.

Dr. Berke has outlined a plan of action which is both realistic and timely. As Dr. Berke, we too believe State Boards should have the key role in advocating school finance reform. Obviously, however, school finance reform will take place only after a great deal of political compromise. Clearly the governor, the legislature, business leaders and key actors from the various constituencies must be part of a task force focusing on school finance reform. We believe however that the State Board along with the Chief State School Officer should be the conveners of and the driving force behind such a school finance reform task force. What follows are a series of steps which we believe are consistent with Dr. Berke's recommendations and which will allow a State Board to become both the advocates for and facilitators of school finance reform within their state.

1. Using Berke's questions as a starting point, direct the Chief to present a report to the Board on the scope of school funding problems within the state. Request other interested groups to submit similar reports.

2. Simultaneously, direct the Chief to present a report on the adequacy and weaknesses of the existing distribution mechanism. Request other interested groups to submit similar reports.
   Note: In both one and two above, the State Board may wish to identify the questions to which the reports should address themselves and the format to be used in presentation. Undoubtedly within the SEA finance staff, the legislative budget staff or the governor's budget staff are individuals who could assist the board in forming the correct questions.

3. Jointly with the Chief, review the data and reports and determine the urgency of the school finance problem when weighed against other priorities. Assuming that the finance problem has urgency the Board and the Chief should have a candid discussion about their relative power position within the state's political structure. While the NASBE staff fervently believes that State Boards should be the agressive political advocates for school finance reform, we recognize that the relative power position of State Boards varies from state to state. Therefore if the Board and Chief determine that their power position is not strong enough to be the political force behind school finance reform they should determine which group does and forge a political alliance with that group.

4. The Board and Chief should convene a school finance task force comprised of the key actors from the educational and political arenas and charge them with developing several different, but feasible, school finance alternatives. All generated alternatives must be simulated on a computer to determine the impact and utility of each alternative. Throughout the duration of the task force, the State Board and Chief State School Officer should serve as conveners and facilitators.

5. The feasible alternatives should be presented to the legislature, the State Board and the Chief. In turn the board should convene a series of meetings with a significant number of the key political, educational, business and civic leaders of the state in an attempt to sense which finance reform alternatives would have the greater support.

6. Following the above meetings, the Board and Chief should select an alternative for recommendation to the legislature, assuming legislative enactment is necessary. In transmitting their recommendation, the reasons for the plans selection over the other alternatives should be given. If the Board and Chief have concluded that their relative power position is not strong enough for them to be the political force behind the finance reform, the plan should be given to the group identified in step three above. This group would begin mobilizing supporters and holding informational hearings throughout the states. The State Board and Chief should in this instance play the role of statesmen advocates of the plan.

In addition to whatever resources may exist within a state, the Education Commission of the States, Denver, Colorado, has a newly created Educational Finance Center which can provide technical assistance for steps one, two and four. State Boards or Chiefs desiring more information should contact Dr. Allan Odden, Director, School Finance Project, Education Commission of the States.

Additionally, the National Conference of State Legislatures has a school finance effort entitled Legislators Educational Action Project (LEAP) under the leadership of John Callahan which can provide assistance. Mr. Callahan's office is located in Washington, D.C. The LEAP project has already provided assistance in Connecticut, Massachusetts, South Carolina, Maryland and Iowa. Finally, Dr. Joel Berke and his colleagues at the Educational Policy Research Institute, Princeton, New Jersey are available on a consulting basis to assist individual states.

Finally, we recognize that the politics of the various states differ and that the steps outlined above do not appear to suggest different strategies. What has been outlined above is a process, a process which we believe has application in most states. In the final analysis, however, each State Board and Chief must select a strategy that fits the political climate and situation within their state. What does not change is our fervent belief that the State Board must convene and facilitate task force efforts to reform school finance and become strong advocates for whatever finance plan developed.

# SECTION IV
# APPENDIX

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* The Annotated Bibliography was prepared by Dr. Joel S. Berke, author of Section II — *Reforming School Finance.*